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Exporter Guide

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Report Highlights: With a population of just 7 million, Hong Kong (HK) is impressively ranked as the 7th largest market for U.S. F&B exports. U.S. exports of high value food products to HK are expected to grow by over 80% and top the US\$1.4 billion mark in 2008. The demand for U.S. products continues to grow, given the weakened U.S. dollar, and climbing food inflation, making U.S. food products more competitive. U.S. food products are well-known for their high quality and HK consumers are becoming more health and safety conscious due to food scares, primarily from Mainland China. Tightened food supplies in Mainland China and the appreciation of the Chinese currency have caused prices for Chinese products to escalate significantly since late 2007. With continued economic growth, HK's per capita GDP is set to reach US\$31,340 in 2008, one of the highest in the world. HK's affluent consumers and its annual 30+ million visitors have contributed to the growth of the HRI sector with 12,910 restaurants, which are set to generate sales receipts at US\$10.3 billion in 2008, an increase of 14% over last year. Retail food sales are expected to reach US\$7.7 billion, an increase of 6.9% over 2007. Products in HK F&B sector that offer good potential for U.S. suppliers include fish and seafood, fresh fruit, poultry, pork, processed fruit and vegetable, beef, wine, beer, fruit and vegetable juices and organic products. Wine and beer offer special opportunities as the HK Government just eliminated its excise tax on these products, which is set to stimulate the growth of the F&B sector in 2008.

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SECTION I. MARKET OVERVIEW

U.S. Food Exports to Hong Kong

- With a population of just 7 million, Hong Kong is the 7th largest export market for U.S. high value consumer-oriented food products¹.
- Popular U.S. food exports to Hong Kong include: red meat, fresh fruit, tree nuts, poultry meat, processed fruit and vegetables.

U.S. EXPORTS OF AGRICULTURAL, FISH & FORESTRY PRODUCTS TO HONG KONG
CY 2003 - 2007 AND YEAR-TO-DATE COMPARISONS
(IN THOUSANDS OF DOLLARS)

EXPORT MARKET: HONG KONG

PRODUCT	CALENDAR YEARS (JAN-DEC)					JANUARY - JULY COMPARISONS		
	2003	2004	2005	2006	2007	2007	2008	% CHANGE
BULK AGRICULTURAL TOTAL.....	82,512	89,847	97,634	92,732	89,784	58,194	58,177	-0.03
WHEAT.....	6	49	1,301	1,166	1,878	883	1,699	92.41
COARSE GRAINS.....	248	5,383	7,684	11,586*	7,285	4,851	2,637	-45.65
RICE.....	1,579	2,658	2,859	695	1,067	496	652	31.33
SOYBEANS.....	16	233	235	1,092	1,334*	529	557	5.33
COTTON.....	66,240	60,788	62,463	66,627	63,633	45,381	38,892	-14.30
TOBACCO.....	3,838	6,999	4,365	510	3,013	15	7,755	53029
PULSES.....	681	898	1,063	608	780	370	639	72.84
PEANUTS.....	1,007	895	816	830	921	359	486	35.61
OTHER BULK COMMODITIES.....	8,897	11,944	16,848*	9,618	9,872	5,310	4,860	-8.46
INTERMEDIATE AGRICULTURAL TOTAL.....	371,346*	297,330	241,983	275,169	295,972	167,814	198,231	18.13
WHEAT FLOUR.....	37	72	36	167	88	58	82	41.24
SOYBEAN MEAL.....	4,733	5,812	6,231*	5,276	2,717	1,782	1,189	-33.25
SOYBEAN OIL.....	389	830	5,601	14,159	20,707	9,055	24,294	168.30
VEGETABLE OILS (EXCL SOYBEAN OIL).....	6,851	3,938	4,626	6,864	4,269	3,036	2,274	-25.05
FEEDS & FODDERS (EXCL PET FOODS).....	4,573	4,577	4,052	4,292	4,023	2,579	2,752	6.72
LIVE ANIMALS.....	3,832	4,563	4,452	4,345	3,329	1,618	384	-76.27
HIDES & SKINS.....	197,485*	166,859	134,734	182,574	195,234	112,239	122,464	9.11
ANIMAL FATS.....	1,785	1,010	1,873	162	558	198	312	57.64
PLANTING SEEDS.....	5,916	3,627	4,104	3,196	3,247	1,670	1,903	13.94
SUGARS, SWEETENERS, & BEVERAGE BASES..	9,782	2,194	1,295	1,466	1,860	1,054	933	-11.47
OTHER INTERMEDIATE PRODUCTS.....	135,964	103,848	74,979	52,669	59,938	34,526	41,644	20.62
CONSUMER-ORIENTED AGRICULTURAL TOTAL....	659,995	525,363	532,291	608,872	782,041	358,158	669,094	86.82
SNACK FOODS (EXCL NUTS).....	19,007	26,255	26,606	25,599	32,950	15,236	15,820	3.84
BREAKFAST CEREALS & PANCAKE MIX.....	7,513	5,617	3,446	4,658	5,112	3,416	2,332	-31.71
RED MEATS, FRESH/CHILLED/FROZEN.....	118,175	24,433	23,953	55,386	117,584	47,728	243,748*	410.71
RED MEATS, PREPARED/PRESERVED.....	6,894	7,221	6,793	12,345	13,035*	7,851	7,013	-10.67
POULTRY MEAT.....	120,639	79,086	63,483	62,549	54,589	31,255	45,837	46.66
DAIRY PRODUCTS.....	10,723	10,692	11,124	10,106	8,880	5,251	9,321	77.51
EGGS & PRODUCTS.....	9,310	9,984	15,300	16,524	21,707	13,935	7,770	-44.24
FRESH FRUIT.....	164,850	121,783	138,270	147,617	134,329	66,396	81,021	22.03
FRESH VEGETABLES.....	7,135	6,116	6,457	6,440	5,000	2,518	2,676	6.30
PROCESSED FRUIT & VEGETABLES.....	42,596	49,095	51,663	51,589	65,940	33,510	59,709	78.18
FRUIT & VEGETABLE JUICES.....	7,989	4,548	6,787	16,187	17,045*	10,215	6,946	-32.00
TREE NUTS.....	57,527	67,550	58,914	100,674	178,515*	63,317	117,012	84.80
WINE & BEER.....	13,168	13,708	13,399	8,110	8,869	4,189	10,240	144.42
NURSERY PRODUCTS & CUT FLOWERS.....	3,221	557	812	376	707	179	13	-92.62
PET FOODS (DOG & CAT FOOD).....	8,136	10,123	13,056	16,020	19,141*	9,511	9,461	-0.52
OTHER CONSUMER-ORIENTED PRODUCTS.....	63,112	88,594	92,228	74,690	98,638	43,654	50,174	14.94
FOREST PRODUCTS (EXCL PULP & PAPER)....	140,207	138,854	102,903	104,762	98,523	66,513	49,098	-26.18
LOGS AND CHIPS.....	36,286	39,478	32,117	41,414	54,085*	39,124	28,402	-27.41
HARDWOOD LUMBER.....	70,870	65,802	43,416	36,271	26,628	16,207	11,860	-26.82
SOFTWARE AND TREATED LUMBER.....	2,107	1,839	903	468	1,492	491	1,372	179.34
PANEL PRODUCTS (INCL PLYWOOD).....	24,250	26,251*	19,345	14,130	9,284	6,898	3,176	-53.96
OTHER VALUE-ADDED WOOD PRODUCTS.....	6,694	5,485	7,121	12,480*	7,033	3,792	4,289	13.10
FISH & SEAFOOD PRODUCTS, EDIBLE.....	35,500	39,688	44,913	55,006*	46,080	23,938	24,105	0.70
SALMON, WHOLE OR Eviscerated.....	18	91	272	249	657	387	478	23.50
SALMON, CANNED.....	0	7	52	2,752*	250	239	24	-89.92
CRAB & CRABMEAT.....	471	835	1,458	1,663	5,231*	3,747	1,301	-65.26
SURIMI (FISH PASTE).....	0	0	0	0	53	0	63	-
ROE & URCHIN (FISH EGGS).....	5,672	7,310*	5,681	3,760	3,847	1,459	472	-67.67
OTHER EDIBLE FISH & SEAFOOD.....	29,340	31,445	37,450	46,582*	36,043	18,106	21,768	20.23
AGRICULTURAL PRODUCT TOTAL	1,113,852	912,540	871,908	976,773	1,167,797	584,166	925,502	58.43
AGRICULTURAL, FISH & FORESTRY TOTAL	1,289,560	1,091,082	1,019,723	1,136,541	1,312,400	674,616	998,705	48.04

ANALYSIS BY: COMMODITY AND MARKETING PROGRAMS/FAS/USDA
SOURCE: U.S. BUREAU OF THE CENSUS TRADE DATA
NOTE: * DENOTES HIGHEST EXPORT LEVELS SINCE AT LEAST CY 1970

FOR MORE INFORMATION VISIT THE FAS WEB SITE "FASOnline"
AT www.fas.usda.gov, SELECT SEARCH, THEN BICO REPORTS
OR EMAIL FAS AT usthelp@fas.usda.gov

¹ BICO trade statistics, FAS website

Food Imports

- Due to limited land resources and rapid urbanization, Hong Kong relies on imports for about 95% of its food supply. Local production contributes only 4% of fresh vegetables, 52% of live poultry, and 18% of live pigs.
- Due to its central location, free port status and position as a regional purchasing and distribution center, 31% of Hong Kong imports are re-exported. Of which, half are re-exported to Mainland China.

Hong Kong's Imports (2003-2008) of Consumer Oriented Agricultural Products² (COAP) & Seafood

Suppliers	(US\$ Million)	2006	2007	2008*	2008* Share	Growth 08*/07	08* Re-exports/ Gross Imports
World	Gross Imports	7,647	9,098	11,584			
	Re-exports	1,775	2,435	3,463			
	Retained Imports	5,873	6,663	8,121	100%	22%	30%
China	Gross Imports	1,854	2,007	2,214			
	Re-exports	296	309	374			
	Retained Imports	1,558	1,698	1,840	23%	8%	17%
United States	Gross Imports	875	1,042	1,635			
	Re-exports	220	328	641			
	Retained Imports	655	715	994	12%	39%	39%
Brazil	Gross Imports	645	989	1,521			
	Re-exports	273	491	642			
	Retained Imports	372	498	878	11%	76%	42%
Japan	Gross Imports	485	573	575			
	Re-exports	38	36	37			
	Retained Imports	446	536	538	7%	0%	6%
Australia	Gross Imports	485	529	621			
	Re-exports	41	58	62			
	Retained Imports	444	470	560	7%	19%	10%
Thailand	Gross Imports	338	410	476			
	Re-exports	161	226	272			
	Retained Imports	177	184	204	3%	11%	57%
France	Gross Imports	147	251	392			
	Re-exports	39	88	103			
	Retained Imports	108	164	289	4%	76%	26%
Canada	Gross Imports	208	217	378			
	Re-exports	26	43	164			
	Retained Imports	182	173	215	3%	24%	43%
Netherlands	Gross Imports	166	211	312			
	Re-exports	34	60	108			
	Retained Imports	132	151	204	3%	35%	35%
Germany	Gross Imports	86	148	340			
	Re-exports	39	73	213			
	Retained Imports	47	76	127	2%	68%	63%
From Top 10 Suppliers	Gross Imports	5,288	6,378	8,465			
	Re-exports	1,168	1,712	2,616			
	Retained Imports	4,121	4,666	5,848	72%	25%	31%
From Rest of World	Gross Imports	2,359	2,721	3,120			
	Re-exports	607	723	846			
	Retained Imports	1,752	1,998	2,273	28%	14%	27%

(* Estimated figures for 2008)

² Consumer Oriented Agricultural Products (COAP) refers to agricultural products that require little or no additional processing and are generally ready for final consumption at either the food retail or food service level. Examples of COAP are: red meat, poultry meat, snacks, breakfast cereals, pancake mix, fruits and vegetables, fruit and vegetable juices, tree nuts, wine, beer, cut flowers and pet foods. Source of data: Hong Kong Census & Stat. Dept.

- The F&B sector is continually seeking quality fish and seafood supplies. U.S. products are highly respected for their quality and safety. Growing concerns over the safety of Chinese fish and seafood being fished from polluted sources, increase opportunities for high quality fish and seafood.
- Thanks to the fast-growing economy and consumer affluence, retained imports of COAP and Seafood products in Hong Kong grew by 13% in 2007. The U.S. is Hong Kong's second largest supplier of COAP and Seafood products following China. Retained imports of products from China and the US in 2007 were US\$1.7 billion and US\$715 million respectively, representing market shares of 25% and 11%. At the same time, retained imports from these two supplying countries grew by 9%.
- Hong Kong's gateway for trade with China and Macau are increasingly opening up greater avenues for U.S. high value food products. In 2007, Hong Kong imported over US\$9 billion COAP and seafood worldwide and re-exported 27% of these products. 52% of all these re-exports went to China and 10% went to Macau³.

Economy

- The Hong Kong economy continued its spectacular growth in 2007, thanks to the robust performance of its export markets, the external sector and an upsurge of consumer spending and investment. The following figures illustrate the growth of Hong Kong's economy and the purchasing power of its consumers:

	2006	2007	Growth 06 vs 07	2008 (Expected Figures)	Expected Growth 07 vs 08
GDP	US\$189 billion	US\$207 billion	+9.3%	US\$217 billion*	+4.8%
GDP per capita	US\$27,598	US\$29,850	+8.2%	US\$31,340*	+5%
Retail sales on Food	US\$6.7 billion	US\$7.2 billion	+7%	US\$7.7 billion**	+6.9%
Restaurant receipts	US\$7.9 billion	US\$9 billion	+13.5%	US\$10.3 billion**	+14%
No. of tourists	25.2 million	28.1 million	+11.2%	30 million**	+6.8%

(Source: Hong Kong Census and Statistics Department)

(* Estimated figures based on forecast of economic growth by the Hong Kong Government)

(** Estimated figures based on analysis of the economy and interviews with HRI traders)

- **Price-Competitiveness of U.S. Products Continues:** Hong Kong is the 7th largest market for U.S. exports of consumer-oriented food products, which reached US\$782 million in 2007, a growth of 28% over 2006⁴. U.S. exports of consumer-ready products are expected to continue their strong growth in 2008. U.S. food traders are aggressively seeking ways to penetrate international markets as well as take advantage of their products' price competitiveness due to the weaker U.S. dollar. In addition, Hong Kong consumers are increasingly concerned about the safety of food imports from China. U.S. food products, organic, health foods and gourmet products are well-known in Hong Kong for their high quality and are therefore likely to enjoy more opportunities as Hong Kong consumers are becoming more health and safety conscious. Tightened food supplies in Mainland China and the appreciation of the Chinese currency (Renminbi or RMB in short), have resulted in escalating food prices in Hong Kong since late 2007. This trend is expected to continue in 2008 and further reduce or eliminate their price advantage over U.S. products. This situation is already leading Hong Kong food traders to seek imports from the U.S.

³ Hong Kong Import and Re-export Statistics, World Trade Atlas

⁴Source: BICO trade statistics for U.S. food exports to Hong Kong, FAS website

- **Development in Infrastructure:** The Hong Kong Government (HKG) has plans for infrastructure projects such as the construction of a bridge linking Hong Kong to neighboring cities of Macau and Zhuhai (in China) and building up a new container terminal. These infrastructure developments will facilitate the flow of goods and passengers between Hong Kong, Macau, Mainland China and the world and strengthen Hong Kong's position as a regional hub for trade.
- **Favorable Policy:** HKG abolished the excise tax on wines and beer in February 2008, which used to be 40% and 20% respectively. Hong Kong's wine imports for the first 8 months in 2008 reached US\$212 million and 15.6million liters, an increase of 84% in value and 16% in quantity compared with the same period in 2007. The elimination of the wine tax is expected to boost the growth of wine particularly in the HRI sector in 2008⁵ (please refer to GAIN Report #8005 for the latest Hong Kong Wine Report).
- **Tourism:** The HKG will invest on building a new cruise terminal to attract more tourists for cruise travel in the region. However, slowing down of the global economy and the Chinese government's tightening up of granting visas to its residents to visit Hong Kong (since June 2008) are expected to reduce total tourist arrivals in 2008, which were forecast at 35 million and now revised to 32 million. The tourism trade expects that tourism arrivals in 2009 will remain at the region of 32 million.

Summary of the Key Strengths and Challenges for the Hong Kong Market

Strengths	Weaknesses
U.S. agricultural and food products are sought after by Hong Kong's HRI sector, as they enjoy an excellent reputation among Hong Kong consumers AND they are renowned for being of high quality and food safety standards, as well as healthy and nutritious.	U.S. agricultural and food products are more expensive than some regionally available food products. China is the largest competitor to U.S. food products.
The HRI sector actively seeks to minimize costs and maximizing profits. Thus, the weak U.S. dollar has positioned U.S. food products more attractively against other imports to Hong Kong.	Lengthy transportation time and costs associated to importing U.S. food products to Hong Kong can make them less competitive than products available in the region or from Australia and New Zealand.
There is a wide variety of U.S. products available to Hong Kong consumers (over 30,000 different items). Consumers demand continues to increase for high quality products due to ongoing food safety concerns from Mainland China.	Lack of awareness of new technologies for food products, such as biotechnology.
Total U.S. exports of high value food products to Hong Kong is expected to reach over US\$1.4 billion, making it the 7 th largest market for the U.S., growing at a rate of over 80% from 2007 to 2008.	The importance of the Hong Kong market as a transshipment point and buying center is not widely known.
Expats as well as the younger generations continue to explore new products, such as health foods, organics, convenience and gourmet foods. More and more restaurants are including such products on their menus. Hong Kongers in general, are highly receptive to advertising, marketing and promotions.	Numerous U.S. food regulations differ from Codex, which can complicate import clearances.
Hong Kong's modern and efficient port terminal and free trade policy make it an attractive location for trade, including re-exports to Asia.	
In general, HKG in its implementation and application of regulations is transparent and open, as it follows and adopts WTO, Codex and OIE guidelines for food safety.	
Lack of domestic production means virtually no protectionist pressures for food and agricultural products.	
Hong Kong has a very strong economy and is in a rapidly growing region.	
Hong Kong has an exceptionally strong infrastructure and distribution system which renders it as an important trading hub and gateway in the region.	

⁵ Budget Speech on February 27, 2008, Financial Secretary, Hong Kong Government

SECTION II. EXPORTER BUSINESS TIPS

Importer Lists

ATO provides Hong Kong importer lists to U.S. exporters and assists to arrange meeting appointments, provided adequate lead-time is given. Please contact the ATO via Atohongkong@fas.usda.gov for further information and other business tips.

Language

The official written languages in Hong Kong are Chinese and English. The official spoken languages are Cantonese (the prominent Chinese dialect in Hong Kong and South China) and English. In general, all correspondence can be in English.

Travel Visa

Even though Hong Kong is now part of China, there is still a border boundary between Hong Kong and China. If you are traveling with a U.S. passport, you do not need a travel visa for Hong Kong. However, if you are planning to go to Mainland China, you need to apply for a travel visa into China.

Legal System

Hong Kong's legal system is firmly based on the rule of law and the independence of the judiciary. Hong Kong's legal system is separate from Mainland China. Also, Hong Kong is a separate customs territory from China.

Payment

Hong Kong importers are willing to pay by letter of credit in the beginning. When a trading relationship has been established, many of them prefer to pay by open accounts so as to cut transaction costs.

General Consumer Tastes and Preferences

- There is a growing popularity of frozen foodstuffs because more and more consumers believe that frozen foods are more hygienic. However, Hong Kong consumers in general still prefer fresh foodstuffs, particularly fish and poultry meat.
- Due to the increasing prevalence of dual income families, ready-to-cook food has become more popular. The major supermarket chains in Hong Kong have been putting more emphasis on convenience foods, especially in their pre-prepared sections that are virtually serving ready-to-eat foods.
- There is most potential for growth in the processed/convenience sectors of Hong Kong's retail food markets for U.S. high value consumer foods such as general grocery items, ingredients for home meal replacement, and health food.
- Hong Kong consumers have become more aware of food safety issues and nutrition values of food products. Clear indications of nutritional value on the package have been a good marketing strategy for health foods.

- The sales of organic products have been increasing steadily. A representative of one of the largest supermarket chains revealed that there were only 200 organic items for sale four years ago compared to over 2000 items currently. The price discrepancy between conventional and organic foods has also narrowed over the years. Currently, organic products are priced between 10-20% higher. The most popular organic products are baby foods, vegetables, fruits, eggs, fresh meats, and fruit juices.
- Health foods continue to grow in popularity in Hong Kong because of consumers' desire to enhance general health. The latest trend in health foods now is "low Glycemic Index" and "Antioxidants".
- Foods categorized as natural and having benefits to health are also appealing to Hong Kong consumers. For example, nut suppliers promote nuts as healthy snacks good for the heart, and many cereals are marketed as an effective means of controlling cholesterol.
- Consumption of wine is growing in popularity in Hong Kong. In February 2008, the HKG eliminated its import duty on wine and stimulated a surge in volumes and quantity of wines imports into Hong Kong. Hong Kong's wine imports for the first 8 months in 2008 reached US\$212 million and 15.6million liters, an increase of 84% in value and 16% in quantity compared with the same period in 2007. For more information on the wine market in Hong Kong, please refer to GAIN Report #HK8005.
- Demand for promotion package and discounts. They are very price sensitive. Marketing tactics such as selling bundled economy packs or enclosing complimentary samples are usually used to stimulate sales. The most direct and effective marketing tool is to offer discounts.
- Because of the limited living space in Hong Kong, it is inconvenient for Hong Kong consumers to store food products. Therefore, bulk-pack food products do not sell well in Hong Kong, and small package food products are preferred.
- Since ice-cream is a very popular snack, Hong Kong has witnessed the opening of more and more ice-cream specialty shops such as New Zealand Natural, Kida Garden, Papagallo, iScream, along with the long established Ben & Jerry's, Double Rainbow and Haagen Daz.

Import Regulations

- **Import Duties & Import Certificates**

With the exception of spirits, all food and beverage products can be imported to Hong Kong duty free. Technical requirements for imports vary significantly according to the product. Products which require import permits/health certificates include meat, milk and frozen confections. (Eggs are expected to be subject to the health certification requirements later 2008). The HKG accepts import applications from Hong Kong importers. In other words, local importers and not U.S. exporters are required to apply for import permits. U.S. exporters need to supply their agents/importers with necessary documentation such as health certificates from the U.S. government. For details on Hong Kong's general import regulations for food products, please refer to GAIN Report #8025.

- **New Nutritional Labeling Law**

Hong Kong's Legislative Council on May 28, 2008 passed a nutrition labeling regulation, which will take effect July 1, 2010. Hong Kong's nutrition labeling regulation requires all prepackaged food sold in Hong Kong have to label energy plus seven nutrients namely, protein, carbohydrate, fat, saturated fat, trans fat, sodium and sugars. Products selling less than 30,000 units a year can apply for small volume exemption provided that the products do not carry any nutritional claims. Traders applying for exemption have to pay HK\$345 (US\$44) per product variety for the first year and HK\$335 (US\$43) for annual renewal.

Hong Kong's nutrition labeling regulation is unique; as all imported foods making nutrition claims from all sources will have to be re-labeled for the Hong Kong market. Despite the U.S. requiring the labeling of 15 energy/nutrients, U.S. products still cannot meet with the Hong Kong nutrition labeling requirements due to different nutrient definitions, rounding practices, and recommendations for daily consumption. Virtually all U.S. products carrying claims will require labeling changes and/or nutrient testing.

Sources indicated that major retailers have notified their suppliers that they would only accept products with nutrition labels complying with Hong Kong's new regulation after July 1, 2009, one year earlier than HKG's enforcement date.

Details of the regulation are contained in the Technical Guidance Notes on Nutrition Labeling and Nutrition Claims, which are available at:
http://www.cfs.gov.hk/english/food_leg/food_leg_nl_guidance.html.

Further supplementary information will be provided in the form of FAQ on the Hong Kong government's Center for Food Safety website:
<http://www.cfs.gov.hk/eindex.html>

For more information on the impact of Hong Kong's nutrition labeling regulation, please see reports HK#7011 & HK#8017.

- **Preservatives Regulations**

Hong Kong amended its Preservatives Regulation, which became effective July 1, 2008. Compared to the original regulation, in which one preservative (propyl para-hydroxybenzoate) is no longer allowed for use, and eleven additional preservatives permitted in the new standard, as listed below:

Guaiac resin
Isopropyl citrates
Stannous chloride
Tertiary butylhydroquinone (TBHQ)
Thiodipropionic acid
Dimethyl dicarbonate
Ferrous gluconate
Formic acid
Hexamethylene tetramine
Lysozyme
Pimaricin

Another change brought about by the regulation amendment is the adoption of a food category system based on Codex's GSFA (Codex General Standard for Food Additives) and the incorporation of those preservatives and antioxidants, as well as their permitted levels of use, in GSFA.

To help trade better understand the amended regulation, the HKG issued a "User Guideline", which provides the definition of each food category of the newly adopted food category system. Also, the Guidelines include some questions and answers pertaining to the amended regulations. The full Guidelines are available at the following website:

http://www.cfs.gov.hk/english/whatsnew/whatsnew_fstr/files/User_Guideline_e.pdf

Hong Kong's Preservatives Regulation adopts the principle of a positive list. In other words, Hong Kong does not allow any preservatives or antioxidants in foods if they are not expressly permitted by the Preservatives Regulation. The list of permitted preservatives and their maximum permitted levels may be retrieved from the following website:

<http://www.legco.gov.hk/yr07-08/english/subleg/negative/ln085-08-e.pdf>

More information on the amended Preservatives Regulation, please see gain reports HK#7018 and HK#8021.

- **Biotech Food Related Regulations**

The HKG does not have any specific biotechnology regulations with regard to the labeling of biotech food products. The HKG makes no distinction between conventional and biotech foods. All are subject to the same food safety regulation.

The HKG, after evaluating the impact of its voluntary labeling scheme for biotech food products over the past year, released its conclusions to the Legislative Council on July 8, 2008, suggesting there is no need for a mandatory labeling law in Hong Kong. The HKG noted difficulty in carryout a law that currently does not have an international standard to back it up. As a result of its evaluation, the HKG plans to continue to promote voluntary labeling of GMO products as a viable alternative for the trade.

The HKG released a set of guidelines on voluntary labeling for biotech foods in 2006. The guidelines on labeling for biotech foods are advisory in nature and do not have any legal effect. Adoption is entirely voluntary and is not binding. The guidelines apply to prepackaged food. The guidelines are based on the following four principles.

- (1) The labeling of biotech food will comply with the existing food legislation.
- (2) The threshold level applied in the guideline for labeling purpose is 5 percent, in respect of individual food ingredient.
- (3) Additional declaration on the food label is recommended when significant modifications of the food, e.g. composition, nutrition value, level of anti-nutritional factors, natural toxicant, presence of allergen, intended use, introduction of an animal gene, etc, have taken place.
- (4) Negative labeling is not recommended.

As the guideline is voluntary, U.S. food exports should not be affected if they choose not to have any biotech labeling. However, it should be noted that the HKG does not encourage negative labeling particularly for the use of the following terms:

- (1) GMO free
- (2) Free from GM ingredients, etc

For products with such definite negative labeling, the HKG may take the initiative to test the products against GM ingredients and zero tolerance will be adopted for testing purposes. If products are found to have misleading labeling, a retailer may be subject to prosecution under Section 61 – False Labeling and Advertisement of Food or Drugs of Chapter 132 Public Health and Municipal Services Ordinance.

(Available at <http://www.legislation.gov.hk/eng/home.htm>)

If the trade chooses to apply negative labeling, the government advises to use less definite terms such as “sourced from non-GM sources” (which contains less than 5 percent of GM content) and to have documentation to substantiate such declaration.

For more details on the voluntary labeling guidelines and biotechnology in Hong Kong, please refer to Gain Report HK#6026 & HK#8019 respectively.

- **Certification Requirements for Seafood Products**

The Hong Kong government is in the process of drawing up new certification requirements for all fish and seafood products. Currently, it is not mandatory to provide health certificates for seafood imports to Hong Kong, though U.S. exporters usually provide health certificates (on a state level) for shipments in order to facilitate customs clearance.

Section III. Market Sector Structure and Trends

Among the three major market sectors of Hong Kong: the retail and HRI (hotel, restaurant and institutional) sectors present the best opportunity for U.S. exporters. The food processing sector in Hong Kong is relatively smaller and presents less opportunity for market development.

Food Retail

- Total retail sales of food and drinks in Hong Kong for 2008 are expected to reach US\$7.7 billion, representing a growth of around 7% compared to 2007.
- Despite a highly centralized supermarket retail network, with two supermarket chains accounting for about 80% of the supermarket turnover, the total number of retail establishments stands at approximately 14,842. These retail establishments include (1) 72 supermarkets and convenience store establishments (the number of supermarkets and convenience stores is about 1,384 if branch outlets are included) and (2) 13,458 wet market stalls and “mom and pop” shop operators. Retail shops in Hong Kong generally are very small in size, about 98% of which hire less than 10 employees⁶.
- Traditionally, Hong Kong consumers shop for food daily because of a preference for fresh food. Much of the shopping is still done in traditional markets including wet markets and mom-and-pop shops. While both wet market and supermarket sales are increasing, supermarkets are taking a greater share of total sales. The supermarket’s share in terms of retail sales rose from 44% of total sales in 1995 to 53% in 2006.
- Although there will not be significant growth of the number of supermarkets⁷, retail sales share of supermarket is expected to continue to expand in the future at the expense of that of traditional markets. Many supermarkets in Hong Kong now have successfully tapped the fresh food market by offering fresh foods at very competitive prices and providing a comfortable shopping environment, which is very different from traditional wet markets.
- In short, wet markets are strong in fresh foods, while supermarkets are strong in processed, chilled and frozen, high added value, and canned food products. The competition between wet markets and supermarkets has intensified in recent years. Some wet markets have turned air-conditioned and provide free shuttle to nearby residential areas.

⁶ Based on latest available statistics (2005) from the Hong Kong Census and Statistics Department and GAIN Report HK6028

⁷ Statistics on the number of supermarkets between 2001-2005, Hong Kong Census and Statistics Department

Supermarkets

Profiles of Leading Supermarket Chains in Hong Kong

Name of Retailer	Ownership	Food Sales	No. of Outlets	Type of Purchasing agent
Wellcome	Hong Kong	over US\$1 billion	246, 20 which are superstores ⁸	Importers/Agents Exporters Consolidators
ParknShop	Hong Kong	over US\$1 billion	230, 50 of which are superstores ⁹	Importers/Agents Exporters Consolidators
China Resources Supermarket	China	not available	99, 5 of which are superstores	Importers/Agents Exporters
Dah Chong Hong	Hong Kong	not available	50	Importers/Agents Exporters
Jusco Stores (HK) Ltd.	Japan	About US\$247 million	6 within department stores and 3 separate stores ¹⁰	Importers/Agents
CitySuper	Hong Kong	not available	4 and 1 other called Log-on selling snacks only; 1 convenience store called Pit-in	Importers/Agents Consolidators
Oliver Delicatessen	Hong Kong	Not available	1	Importers/Agents Consolidators
Uny	Japan	Not available	1	Importers/Agents
Sogo	Japan	Not available	2	Importers/Agents

- There are two dominant supermarket chains in Hong Kong: The Wellcome Co. Ltd. (246 outlets with 20 superstores) and ParknShop (over 230 with 50 superstores). ParknShop and Wellcome account for about 80% of all supermarket turnovers in Hong Kong. Both supermarkets are able to work closely with real estate developers to open stores in strategic locations, thus maintaining their significant market share. The other players include: China Resources Supermarket (CRC), Dah Chong Hong, Jusco and City Super.
- In the past decade, a “superstore” concept has emerged in the operation of supermarkets, blending the Western supermarket style with a traditional Hong Kong wet market. Superstores offer traditional Chinese fresh food like live fish, meats, ready-to-eat foods and market-style fruit and vegetables as well as the most extensive range of international products.

⁸ Website of the Dairy Farm Group

⁹ Website of the Cheung Kong Group and Hutchison Whampoa Group

¹⁰ Annual Report of AEON (HK) Stores Company Ltd.

- ParknShop opened its first superstore in 1996 with a floor area of 45,000 sq. ft. Presently, its largest supermarket in Hong Kong has a floor area of 72,000 sq. ft. giving customers a modern one-stop shopping solution. The store sells over 20,000 product categories ranging from snacks to electrical household appliances. The ParknShop supermarket chain carries two of its own-label product lines, namely PARKnSHOP and Best Buy, first introduced in 1995. ParknShop is also associated with three other supermarkets by the name of Great, Taste, and Gourmet. These three high-end supermarkets cater mostly to the expatriates and more affluent clientele. They are ideal outlets for innovative, quality and priced international food products. These stores also carry a wide selection of organic products. Great adopts a stylish international food hall concept and its flagship store offers over 46,000 gourmet items. The first 35,000 square feet TASTE food galleria was opened in November 2004, and features more than 25,000 quality food items sourced from around the world. Gourmet, opened in 2005, occupied 15,000-square-foot store offering a selection of over 20,000 products carried across 30 merchandise categories of quality and premium foods.
- Dairy Farm, which owns another major supermarket chain – Wellcome, has opened an upscale supermarket in Hong Kong's central commercial area catering to the more affluent clientele. The new store called "Three Sixty" was opened in November 2006. With a floor area of 23,000 square feet, it is Hong Kong's largest retail outlet for organic and natural products. About 6,000 items or 70% of the items in the store will be organic or natural products. The store includes an organic sector for baby products. "Health" and "natural" are the key concepts of this store. The second "Three Sixty" was opened in October 2007.
- China Resources focuses on local customers. While carrying a variety of products from different countries, a major portion of them comes from China.
- Dah Chong Hong's outlets are generally located near wet markets. While being an importer of a variety of products, its retail outlets focus on frozen meat and seafood products. Dah Chong Hong is a major food importer too.
- CitySuper and Oliver Delicatessen capture an upscale market. Clientele includes mainly well-off middle class and expatriates. Customers are generally receptive to western foods. Both high-end supermarkets require no listing fees.
- Gateway Superstore and PrizeMart are two supermarkets in Hong Kong selling primarily U.S. products. PrizeMart has 11 stores and Gateway has 2 stores. Both supermarkets import directly from US consolidators and do not charge listing fees.
- Jusco, Sogo and Uny are Japanese department stores with a supermarket section. These supermarkets attract many middle-class customers, who are receptive to new products and do not mind to pay for higher prices for higher quality products. These three stores are popular spots for in-store promotions as they are packed with consumers seven days a week. In 2006, Jusco opened 2 separate supermarkets, which were not set up within a department store.
- Hong Kong supermarkets that require listing fees, are fees charged to allow a new product to be put on their shelves. This is a one-off fee for a trial period. The listing fees are extremely negotiable and vary greatly among different supermarket chains. Major supermarket chains, such as Wellcome and ParknShop which have many branch stores, have expensive listing fees. Industry sources revealed that key supermarket chains may charge HK\$1,000 (US\$130) per SKU for each of its store. A 30% discount

may be offered to certain suppliers. The discount offered varies tremendously depending on the popularity of the products and the bargaining power of the supplying companies. Agents/importers will not bear this cost as it is normally just transferred to their principals.

- U.S. exporters should be prepared to encounter numerous trading term demands from Hong Kong food retailers, such as promotional discounts (number of discount promotions offered each year); back-end income (flat rebate per year that a U.S. exporter has to pay to the retail chain based on the annual turnover); D.G.A. (Distribution allowance - the fee that the supermarkets charge for distributing the products from its warehouse to its many branch stores); and incentive rebate (a percentage of turnover rebated to the supermarkets in case sales exceed the agreed amount). It can be expected that the bigger the supermarket, the harsher the trading terms. For general reference, about 15% of the annual turnover has to be rebated to the major supermarkets and 8% to small ones. Agents representing very popular items with large turnover usually have a stronger bargaining power and will be able to negotiate for a lower rebate rate.
- In face of strong competition, major supermarket stores often offer discounts and tend to transfer the cost to suppliers by requesting lower prices for supplies. Given supermarkets' strong bargaining power, many suppliers have to give supermarkets special discounts which ordinary retailers do not enjoy.
- There is excellent growth potential in Hong Kong's retail food market for U.S. grocery store items, particularly new and different items, as food retail outlets continue to increase and diversify. Because of established ties and traditional relationships, most of Hong Kong's supermarket chains traditionally looked to Britain, Australia, New Zealand, and Canada for supplies. In recent years, however, buying habits are shifting and many more American items are now available on local grocery store shelves. Supermarkets tend to use consolidators to help them source new products which are popular in the United States.

Market Entry Approach

- Through setting up a representative office in Hong Kong: While this is the most effective approach, it is very costly.
- Through U.S. Consolidators: Major supermarkets in Hong Kong work with U.S. consolidators for some of their products. However, the product quantities requested per shipment are usually small, especially when new products are purchased to test the market.
- Through Hong Kong agents: This is the most popular approach. The advantage of having an agent is that it can help with marketing and distribution. Some companies may secure a very competitive price package with TV/magazine/radio for advertisements. In addition, well-established companies have extensive distribution networks not limited to one or two supermarkets.
- Direct to Supermarkets: For branded products to sell direct to supermarkets, supermarkets usually require exclusive rights in selling the products in Hong Kong through their own outlets only. Otherwise, they will not consider any direct imports. In this case, expensive listing fees may be waived. For non-branded and large turnover products such as fruit, meat, and vegetables, supermarkets tend to buy direct from overseas exporters to cut costs.

- Direct selling to supermarkets is difficult to handle because they demand strict on-time delivery and very often will not be able to take a whole container. Logistics is the largest problem that U.S. exporters have to deal with if they want to sell direct to supermarkets. However, they can better test the market if they deal directly with retailers.

Convenience Stores

Profiles of Leading Convenience Stores in Hong Kong

Retailer Name	Ownership	No. of Outlets	Locations	Purchasing agent	Year established	Clients' age
7-Eleven	Hong Kong	747	Hong Kong	Importers Agents	1981	15-35
Circle K	Hong Kong	260	Hong Kong	Importers Agents	1985	15-35

- There are around 1,000 convenience stores in Hong Kong. Two major chains dominate the market: 7-Eleven (747 outlets) and Circle K (260 outlets). They are targeting the customer age group of 15-35. Convenience stores are characterized by round-the-clock operation. Since only a limited choice of brand names is available and prices are generally less competitive, most purchases are "convenience" in nature, i.e. goods are normally bought in small quantities for immediate consumption. Good sales items include packaged drinks, beer and snack food. The average size of a convenience store is 1,000 sq. ft. Listing fees are also required for convenience stores.
- 7-Eleven is owned by Dairy Farm, which is also the parent company of the giant supermarket chain of Wellcome. Many of 7-Eleven stores are strategically located in MTR (subway) and KCR (train) stations, popular shopping malls and housing developments throughout Hong Kong.

Market Entry Approach

- Convenience stores largely buy goods from local importers and agents. Therefore, U.S. food exporters have to go through Hong Kong importers to have their products sold in convenience stores.

Traditional Markets

- Traditional markets include wet markets and mom-and-pop shops. They are widespread throughout the territory. Traditional markets used to account for the lion's share of food retail. For example, they occupied around 54% of total retail food sales between 1995 and 1997. Yet supermarkets sales have exceeded traditional markets sales since 1998, and the dominating trend of the former is likely to persist and deepen in the future. Despite the growing significance of supermarkets in terms of food retailing, traditional markets remain as key food retail outlets, particularly for seafood, meat and groceries. Wet markets in Hong Kong have changed gradually over the years. The newly built markets are built and managed by the Hong Kong government with air-conditioning, more hygienic and pleasant environment than the old ones. Some, but not all, stalls in wet markets have freezers and chilling equipment, which is necessary to maintain food quality.

- Mom-and-pop shops around housing estates and schools are ideal retail outlets for drinks and snack foods. Such traditional markets offer small stalls and personal services that many Hong Kong consumers enjoy.
- Yu Kee, a traditional mom-and-pop shop, which started business in 1990, has expanded to 67 stores spreading all over Hong Kong in recent years. The stores have floor area ranging around 1,500 sq. feet each. They sell mainly processed foods and produce. Most of the food supplies in these shops come from China and South East Asia. They also import snack foods and drinks from Europe. However, U.S. foods are not yet on their shelves. The stores feature cheap prices and are after the mass market.

Market Entry Approach

- U.S. food exporters must go through local importers or agents that have good distribution networks.

Trends in Promotional/Marketing Strategies and Tactics

- Supermarkets expanding store size: The supermarket industry is undergoing a face-lift to introduce larger size stores with an objective to provide one-stop shopping and convenience for customers. In addition to traditional grocery and household products, supermarkets are moving towards larger, more modern stores with more fresh food.
- Increasing demand for promotion package and discounts: Hong Kong consumers are very price sensitive. Marketing tactics such as selling larger economy packs or enclosing complimentary samples are usually used to stimulate sales. The most direct and effective marketing tool is to offer discounts.
- Various promotions have varying impact on consumers' purchasing decisions. According to the findings of a survey conducted by the Consumer Council in 2005, nearly 75% of the respondents opted for a "Direct Price-Cut" as the most important factor in prompting them to buy the goods. This was followed by "Buy One Get One Free" or "Buy Two Get One Free" (55.5%); "Add \$1 for One More" (42.7%); "Add-Volume Pack" (39.8%); and "Free Gift/Coupon" (19.8%), which had the least impact on bargain hunters.
- In face of strong competition, major supermarket stores often offer discounts and tend to transfer the cost to suppliers by requesting lower prices for supplies. Given supermarkets' strong bargaining power as they have many retail outlets, many suppliers have to give supermarkets special discounts which ordinary retailers do not enjoy.
- Consumers becoming increasingly health-conscious and organic products picking up in popularity. There has been a gradual shift in what food consumers want in Hong Kong. The importance of meat, especially red meat, has declined among some consumers, while other food groups, such as fruits and vegetables, are gaining in popularity. Consumers increasingly look for freshness, healthiness, new varieties and shorter meal-preparation time for food. Consumers want foods of higher nutritional value, but also increasingly pay attention to food safety and hygiene. In short, the marketing trend is to position food products as healthy, natural, nutritional, etc.

- Internet direct sales of food: Major supermarkets like ParknShop and Wellcome offer grocery shopping over their website. The service is however not attracting a lot of interest, due to the convenience of shopping in Hong Kong, security concerns over payment via the internet and the cost of delivery.
- However, the at-work population in Hong Kong is becoming a coveted audience among marketers to leverage the internet as a medium of advertising. The at-work online audience is large and growing - out of the total Hong Kong workforce of 3.52 million, about 20 % regularly go online at work. These regular Hong Kong internet users are a demographically attractive group of individuals who have higher than average incomes, educations and tendencies to shop and buy online.
- Growing awareness of U.S. products fit supermarkets' needs to diversify product range: with awareness of the high quality and variety of U.S. food products increasing among supermarkets, there are many opportunities to introduce new U.S. products to the local market. ATO Hong Kong selectively invites key supermarket buyers to the United States on buying missions, which are followed by in-store promotions highlighting U.S. products. Buyers from Hong Kong supermarkets realize the quick-changing consumption temperament of local consumers, and many have expressed the need to source new products to capture changing tastes. With strong support from exporters and state regional trading groups, the ATO continues its efforts to promote U.S. products and help supermarkets expand their range of U.S. products.
- To promote U.S. food products, the ATO sponsors major trade shows in Hong Kong and Macau, such as:

Wine and Gourmet Asia (in Macau)	http://www.wineandgourmetasia.com/	Nov 5-7, 2008
HOFEX 2009 (in Hong Kong)	http://www.hofex.com	May 6-9, 2009
Natural Products Expo Asia (in Hong Kong)	http://www.naturalproductsasia.com/	Jun 25-27, 2009
Restaurant and Bar (in Hong Kong)	http://www.restaurantandbarhk.com/	Sep 1-3, 2009
Asia Fruit Logistica 2009 (in Hong Kong)	http://www.asiafruitlogistica.com/	Sep 2-4, 2009
2 nd Hong Kong International Wine Fair (in Hong Kong)	http://hkwinefair.hktdc.com/	Nov 4-6, 2009

- For further information on the Hong Kong food retail sector, please refer to "Retail Food Sector Report 2007" (Gain Report #HK7002).

Hotel, Restaurant and Institutional (HRI)

- Hong Kong restaurants enjoyed a very good year in 2007, as the value of total restaurant receipts was over US\$9 billion and the value of restaurant purchases was US\$3.1 billion, representing an increase of 13.5 % and 16.8 % respectively over 2006. As the economy is expected to grow by 5% in 2008, restaurant receipts are expected to continue to grow by 14% in 2008 to reach US\$10.3 billion.

(Value in US\$ million)	2006	2007	Growth 06 vs 07	2008*
Restaurant Receipts	7,948	9,021	+13.5%	10,300
Restaurant Purchases	2,658	3,105	+16.8%	3,500

(Source: Quarterly Restaurant Receipts and Purchases, Hong Kong Census & Statistics Department)
(* Estimated figures based on analysis of the economy, market trends and interviews with HRI traders)

- As a “Gourmet Paradise”, Hong Kong has around 12,190 restaurants serving a wide range Eastern and Western cuisines along with a wide variety of culinary delights. 45% of them are Chinese restaurants, 40% are non-Chinese restaurants and 15% are fast food shops. In addition, there are over 1,000 bars and other eating and drinking establishments¹¹.
- Chinese restaurants are popular among local citizens and tourists. There are a variety of Chinese restaurants in Hong Kong serving different regional cuisines: Canton, Shanghai, Beijing...etc. A typical lunch at a Chinese restaurant costs around HK\$100-300 per person and a typical dinner costs around HK\$150-400 per person¹².
- Many Hong Kong consumers enjoy western food, as do the 30+ million tourists expected in 2008. Western restaurants are always full of customers of all ages and classes. 5-Star and other high-end western restaurants are as likely to be dominated by local citizens as visiting business people. Japanese food, fast food chains, coffee and snack and casual dining establishments are also increasing their presence. A typical lunch at a nice western restaurant costs around HK\$100-300 per person and a typical dinner costs around HK\$200-500 per person¹³.
- Fast food outlets are popular among Hong Kong consumers. The most popular fast food chains in Hong Kong are McDonald's, KFC and Pizza Hut. There are also some large local fast food chains such as Café De Coral, Maxim's and Fairwood that serve both Chinese and western foods. Competition among fast food chains is intense and keeping the price for a meal at a very low level. The average cost is around HK\$25 for breakfast, HK\$30 for lunch, HK\$20 for afternoon tea and HK\$50 for dinner (US\$1 = HK\$7.8). To further meet competition, many fast food operators have renovated their outlets to make them look more modern, spacious and attractive. To meet the demand of a growing number of health-conscious customers, fast food chains have also introduced more new ingredients and developed healthy-food options such as salads, fruits, and fresh juices.
- The coffee shop market is growing in Hong Kong, especially among younger professionals. In recent years, the trend has been to open upstairs cafes to save on rental costs. They are largely located in commercial areas. Starbucks (95 outlets) and Pacific Coffee (62 outlets) are Hong Kong's two largest coffee shop chains. Virtually all offer high end muffins, pastries, cakes, health bars, prepackaged cold sandwiches, and bottled beverages (juices and water). McDonalds has also vigorously expanded its McCafe in order to gain share in this growing market. Of its 152 outlets, 47 have already included McCafes inside their shops.
- Due to the increasing number of food safety scares, particularly from Mainland China, Hong Kong diners prefer to eat fresh foods rather than processed, chilled, frozen etc. Hong Kong consumers have become increasingly aware of food safety and nutrition. These issues have been used successfully as marketing points for various food commodities and specific products. The growth of “Mix” and other similar juice bars are good examples of specialty restaurants for healthy products. Organic foods are also gaining popularity as evidenced by the growth of specialized retail outlets for organic foods. There is increasing opportunity for U.S. products and ingredients in this sector.

¹¹ Source: Hong Kong Census & Statistics Department

¹² Source: menus of selected Chinese restaurants in Hong Kong's Central District and interviews with consumers in July-August 2008 (US\$1=HK\$7.8)

¹³ Source: Menus of selected western restaurants in Hong Kong's Central District and interviews with consumers in July-August 2008 (US\$1=HK\$7.8)

Market Entry Approach

- Because of small individual consumption, local hotels, restaurants and most fast food operators usually cannot afford to import directly. The distribution of food and beverages to these operators is generally through import agents. U.S. exporters should contact Hong Kong importers to explore potential business opportunities.

Trends in Promotional/Marketing Strategies and Tactics

- Participation in trade shows: There are a good number of trade shows that can help promote high quality US F&B products:

Wine and Gourmet Asia (in Macau)	http://www.wineandgourmetasia.com/	Nov 5-7, 2008
HOFEX 2009 (in Hong Kong)	http://www.hofex.com	May 6-9, 2009
Natural Products Expo Asia (in Hong Kong)	http://www.naturalproductsasia.com/	Jun 25-27, 2009
Restaurant and Bar (in Hong Kong)	http://www.restaurantandbarhk.com/	Sep 1-3, 2009
Asia Fruit Logistica 2009 (in Hong Kong)	http://www.asiafruitlogistica.com/	Sep 2-4, 2009
2 nd Hong Kong International Wine Fair (in Hong Kong)	http://hkwinefair.hktdc.com/	Nov 4-6, 2009

- The above shows provide showcases for U.S. food ingredients, wine and beverages to Hong Kong's hotel and restaurant trade. In cooperation with cooperators and regional groups, the show will demonstrate the versatility and safety of U.S. food products.
- Menu promotions with major restaurant chains: Menu promotion dollars will be maximized if spent on promotion events held with the major restaurant chains. With the restaurant chains' announced intention to have an image overhaul, this provides for an opportunity to introduce new U.S. foods.
- Inviting restaurant owners/chefs to seminars and/or to the United States: ATO Hong Kong/ cooperators organize seminars and trade missions to the U.S. with an intention to introduce U.S. products, meet U.S. exporters, and experience U.S. store formats.
- For more information on Hong Kong's HRI sector, please refer to Gain Report #8009.

Food Processing

- The food processing industry in Hong Kong is relatively small compared to food retail and HRI sectors. The total output of the local food processing industry is estimated at US\$1.8 billion. Major local production includes instant noodles, macaroni, spaghetti, biscuits, pastries and cakes for both domestic consumption and export. Other significant sectors include canning, preserving and processing of seafood (such as fish, shrimp, prawns, and crustaceans); manufacture of dairy products (fresh milk, yogurt and ice cream); seasoning and spirits.
- Based on the trade agreement between Hong Kong and China (called Closer Economic Partnership Arrangement, or CEPA in short), all foods and beverages made in Hong Kong, subject to the CEPA's rules of origin, can enjoy duty-free access to the Chinese mainland. Non-Hong Kong made processed food and beverages products remain subject to tariff rates of up to 35%, and 65% for alcoholic drinks, according to China's 2006 tariff schedule.

- The CEPA zero tariff product list includes aqua – marine products, food and beverages, (certain dairy products such as yogurt and cheese, certain prepared meats, certain sugar confectioneries and cocoa preparations; certain preserved meats and seafood, bread, biscuits and cakes; preserved vegetables and fruits, fruit juices; sauces, water, etc.) and leather and fur products.
- Processed food and beverages items have to comply with the Hong Kong rule of origin in order to be imported to China tariff free. The rule of origin of individual products is basically determined by the manufacturing or processing operation. For example, milk and cream products are considered as “made in Hong Kong” only when the manufacturing processes of mixing, freezing sterilization and cooling are conducted in Hong Kong. The origin criteria for nuts is that the baking, seasoning, and/coating have to be done in Hong Kong. In the case of ginseng, the principal manufacturing processes of cutting and grinding have to be conducted in Hong Kong.
- Ice cream was the only food item being allowed to be exported to China tariff free in 2004 during the first phase of CEPA. However, the food items were greatly expanded in phase II which started in January 2005. It was noticed that Hong Kong's food and agricultural domestic exports to China greatly increased by 31 percent in 2005. No published statistics are available to prove that the surge in domestic exports to China was due to the waiving of tariff. However, there is reason to believe that CEPA II is at work, as seen by the sudden reversion of trade trends.
- China's zero import tariff applications for products made in Hong Kong certainly encourage food production in Hong Kong. The expansion of the local food processing industry will then trigger off a demand for raw materials. Such demand provides export opportunities for U.S. food ingredients suppliers.

Hong Kong's Domestic Exports of Agricultural and Food Products¹⁴

Country	2003	2004	2005	2006	2007
The World	234	229	232	244	255
United States	48	43	43	39	38
China	30	29	38	47	64
Others	156	157	151	158	153

- A full zero-tariff product list is available at:
<http://www.tid.gov.hk/english/cepa/cepa2.html>

Market Entry Approach

- Food ingredients are sourced both through direct import by food processors and through middleman traders. Hong Kong traders and end-users tend to stay with suppliers with whom they know well and have done business with for some time. While exporters would do well exploring all channels, patience and understanding are required to establish a relationship of trust before trading can commence.

¹⁴ Source: World Trade Atlas

SECTION IV. BEST CONSUMER ORIENTED PRODUCT PROSPECTS

Notes :

- 1 95% of Hong Kong food supplies are imported. Since Hong Kong's domestic production is nominal the market size in the following table is equal to retained imports without taking into account local production. U.S. exports to Hong Kong are also based on imports minus exports.
- 2 Import tariff rate for all food and beverage products in the tables are zero except for spirits, which is 100%.
- 3 Products listed below are either enjoying a large market import value or a significant growth rate for the last 5 years (2003-2007).

Top 10 Prospects in 2008

Product Category	2007 Retained Imports (MT)	2007 Retained Imports (US\$ million)	2003 – 2007 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Fish & Seafood Products	Volume statistics not available	US\$1.8 billion Expected to reach US\$2 billion in 2008	+32% (value)	<p>Fish and seafood products are perceived cleaner and safer to eat in Hong Kong.</p> <p>Major suppliers are Japan (17%), Australia (11%), China (11%), Indonesia (6%), Thailand (4%), New Zealand (4%) and the US (4%).</p>	<p>US fish and seafood products are perceived to be clean and of high quality.</p> <p>Retained imports of US fish and seafood have grown by over 56% between 2003 and 2007.</p> <p>Many 5-star hotels are carrying Alaska seafood products such as king salmon, king crab, snow crab, black cod and halibut. It is anticipated that these seafood products will continue to be popular among HRI sector in Hong Kong¹⁵.</p>

¹⁵ In discussion with the Alaska Seafood Marketing Institute

Product Category	2007 Retained Imports (MT)	2007 Retained Imports (US\$ million)	2003 – 2007 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Fresh Fruit	524,296 MT Expected to reach 505,024 MT in 2008	US\$532 million Expected to reach US\$560 million in 2008	-14% (volume) -2% (value)	<p>The Hong Kong fresh fruit market had negative growth over the past 5 years because of bad crops in some categories.</p> <p>Hong Kong consumers prefer fresh fruit to frozen fruit. Competition from Thailand and China is keen as these countries supply tropical fresh fruit at competitive prices. The shorter travel time for shipments from these countries to Hong Kong also render their products "fresh" to Hong Kong consumers.</p>	<p>US fresh fruit are well known of their large variety, good quality and tastes.</p> <p>US is the largest supplier (25%) of fresh fruit to Hong Kong, followed by Thailand (23%).</p> <p>The top US fruit exports to Hong Kong are grapes (US\$48 million), citrus products (US\$39 million), apples, pears, quinces, (US\$33 million), strawberries (US\$12 million), cherries (US\$10 million), plums, sloes, peaches (US\$6.4 million). These US products will continue to be popular among Hong Kong consumers¹⁶.</p>
Poultry Products	267,359 MT Expected to reach 314,443 MT in 2008	US\$465 million Expected to reach US\$637 million in 2008	+3% (volume) +20% (value)	<p>Brazil is the leading supplier of poultry for Hong Kong, which banned entry of U.S. poultry products between February 11, 2004 and April 30, 2004 due to outbreaks of Avian Influenza cases in the U.S. Brazil captured</p>	<p>U.S. exported US\$81 million worth of chicken products to Hong Kong, accounting for 9% of the market share.</p> <p>U.S. products are highly regarded in food quality and food safety.</p>

¹⁶ In discussions with various US fruit cooperators in Hong Kong

Product Category	2007 Retained Imports (MT)	2007 Retained Imports (US\$ million)	2003 – 2007 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
				<p>much of the U.S. market share. Prior to the ban in 2004, U.S. market share was 42% (in 2003) compared to 9% in 2007. Brazil's market share grew from 23% in 2003 to 54% in 2007.</p> <p>Though the ban was later lifted, Brazil continues to be the largest supplier due to price advantage of its products and its exporters' relationships with Hong Kong importers. The reduced supplies of live chickens to Hong Kong have resulted in increased demand for chilled whole chickens from China.</p> <p>Hong Kong's new certification requirements for U.S. chicken feet, which took effect in May 2005, has reduced U.S. chicken feet supplies to Hong Kong. By the new standard requirement, U.S.</p>	<p>More popular U.S. chicken products include chicken wing mid joint and chicken leg because of their sizes and quality. These two products are particularly popularly among Hong Kong style cafes¹⁷.</p>

¹⁷ Source: Hong Kong Office of USA Poultry and Egg Export Council

Product Category	2007 Retained Imports (MT)	2007 Retained Imports (US\$ million)	2003 – 2007 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
				chicken feet are required to have ante mortem and post mortem inspection.	
Pork	154,172 MT Expected to reach 177,113 MT in 2008	US\$304 million Expected to reach US\$501 million in 2008	+0% (volume) +9% (value)	China and Brazil are the top suppliers of pork to Hong Kong because their products are very price competitive. There is a big demand for price competitive prepared/preserved meatballs and other products typical in Chinese dishes in Chinese restaurants, which are made from pork. China enjoys the advantage of low processing cost.	U.S. exported US\$14.7 million worth of pork to Hong Kong, accounting for 4% of the market share. U.S. pork imports grew over 177% between 2005 and 2006. The growth was primarily in sausages. U.S. is the largest supplier of sausages to Hong Kong. U.S. products are highly regarded for quality and food safety.
Processed Fruit & Vegetables	170,084 MT Expected to reach 165,185 MT in 2008	US\$223 million Expected to reach US\$248 million in 2008	+10% (volume) +22% (value)	China is the largest supplier (32%), followed by the US (26%). Some international brands have operations in China and their exports to Hong Kong are considered as imports from China.	Relative increase in prices for products in China have prompted Hong Kong traders to seek more food supplies, particularly from the US as the Hong Kong dollar is linked to US dollar. US processed fruit and vegetables are well known of their superior quality and

Product Category	2007 Retained Imports (MT)	2007 Retained Imports (US\$ million)	2003 – 2007 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
					tastes. US processed fruit and vegetables such as potatoes, nuts, sweet corn, mushrooms, peaches and pineapples will continue to be in large demand in Hong Kong ¹⁸ .
Beef, Frozen	50,716 MT Expected to reach 69,438 MT in 2008	US\$151 million Expected to reach US\$249 million in 2008	+3% (volume) +5% (value)	<p>Because of BSE cases in the U.S., Hong Kong currently allows boneless beef derived from cattle under 30 months of age from U.S. E.V (Export Verification) approved plants.</p> <p>Bone-in beef and variety beef from the U.S. are not yet allowed in.</p> <p>Currently only 25 plants have been EV approved and are eligible to export beef products to Hong Kong.</p> <p>Short U.S. beef supplies make U.S. beef very expensive.</p>	<p>U.S. exported US\$24.8 million worth of beef exports to Hong Kong in 2007, accounting for 14% of the market share. Although U.S. beef were banned entry in Hong Kong in 2004 and 2005, Hong Kong consumers still have high regards for U.S. beef in terms of quality and safety.</p> <p>More popular U.S. beef products in 2008 include: strip loin, rib eye and tenderloin¹⁹.</p>

¹⁸ Analysis of Hong Kong F&B import statistics and discussions with US fruit & vegetable cooperators in Hong Kong

¹⁹ Interview with one of the largest local beef importers

Product Category	2007 Retained Imports (MT)	2007 Retained Imports (US\$ million)	2003 – 2007 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Wine	14.6 million liters Expected to reach 19.8 million liters in 2008	US\$131 million Expected to reach US\$294 million in 2008	+15% (volume) +32% (value)	Competition is keen in Hong Kong. Major competitors come from France and Australia. French wine is traditionally more popular in Hong Kong.	U.S. exported US\$9 million of wine to Hong Kong, accounting for 4% of the market share. The HKG abolished the import tax on wine and beer in February 2008. The HRI sector in Macau is growing, making it an excellent opportunity for U.S. wine traders to expand their exports. Hong Kong consumers are getting more and more receptive to wine drinking practice. The total elimination of the excise tax on wine would probably help nurture wine drinking culture in Hong Kong.
Beer	123 million liters Expected to reach 156 million liters in 2008	US\$67 million Expected to reach US\$88 million in 2008	+6% (volume) +1% (value)	China and Korea are major suppliers for beer and their beer have been very price competitive.	Hong Kong abolished the 20% excise tax on beer imports and created opportunity for US beer to gain more market shares in Hong Kong. The weakened US dollar further increases price competitiveness of US beer.

Product Category	2007 Retained Imports (MT)	2007 Retained Imports (US\$ million)	2003 – 2007 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Fruit & Vegetable Juices	18,967 MT Expected to reach 21,208 MT in 2008	US\$27 million Expected to reach US\$28 million in 2008	- 10% (volume) + 50% (value)	<p>Bad citrus crops in 2007 had reduced the supply of US citrus juices. But the continued demand in Hong Kong enabled a healthy growth in import value of 50% over the past years.</p> <p>The US is still the market leader, exported US\$13 million worth of fresh fruit juices to Hong Kong, accounting for a market share of 42%.</p>	<p>Given the high quality of US fruit & vegetable juices and a weakened US dollar, US fruit and vegetable juices such as orange juices, apple juices, grape juices, grapefruit juices, tomato juices and pineapple juices are expected to continue to be very popular in 2008²⁰.</p>
Organic Food and Beverage	<p>Statistics not available</p> <p>(The size of the Hong Kong organic food and beverage market is estimated at US\$500 million, with an annual growth of 10-15%²¹)</p>	Statistics not available	Statistics not available	<p>Organic F&B products are generally 20-40% higher in prices compared to non-organic products.</p> <p>There are many organic standards in the market and the poor quality of a country's organic products may negatively affect the image of organic products from all supplying countries.</p>	<p>As Hong Kong consumers are becoming more health-conscious, the demand for organic products will continue to grow in 2008.</p> <p>USDA Organic enjoys an excellent reputation among consumers in Hong Kong. Consumers generally have more confidence on USDA Organic standards than other countries'.</p>

²⁰ Analysis of Hong Kong F&B import statistics and discussions with US fruit & vegetable cooperators in Hong Kong

²¹ In discussions with leading Hong Kong organic food importers and retailers

Product Category	2007 Retained Imports (MT)	2007 Retained Imports (US\$ million)	2003 – 2007 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
					<p>Grain products, soybeans, cereals, oats, noodles...etc are in good demand.</p> <p>Other products such as organic meat (beef and pork), condiments, poultry, eggs etc are starting to have more interest in the market.</p> <p>There is also a strong demand for organic vegetables and fruits, organic coffee and tea products²².</p>

²² In discussions with leading Hong Kong organic food importers and retailers

SECTION V. KEY CONTACTS AND FURTHER INFORMATION**Post Contact**

Foreign Agricultural Service (FAS)

Home Page: <http://www.fas.usda.gov>

Agricultural Trade Office

American Consulate General

18th Floor, St. John's Building

33 Garden Road, Hong Kong

Tel: (852) 2841-2350

Fax: (852) 2845-0943

E-Mail: ATOHongKong@usda.gov

Internet Homepage: <http://www.usconsulate.org.hk>

<http://www.usfoods-hongkong.net>

Department to implement food safety control policy

Food & Environmental Hygiene Department

43/F., Queensway Govt Offices

66 Queensway, Hong Kong

Tel: 852-2868-0000

Fax: 852-2834-8467

Web site: <http://www.fehd.gov.hk>

Department to control the importation of plants & live animals

Agriculture, Fisheries & Conservation Department

5-8/F., Cheung Sha Wan Govt Offices

303, Cheung Sha Wan Rd

Kowloon, Hong Kong

Tel: 852-2708-8885

Fax: 852-2311-3731

Web site: <http://www.afcd.gov.hk>

Department to issue license for imported reserved commodities

Trade & Industry Department

18/F., Trade Department Tower

700 Nathan Road

Kowloon, Hong Kong

Tel: 852-2392-2922

Fax: 852-2789-2491

Web site: <http://www.tid.gov.hk>

Department to register health foods containing medicine ingredients

Department of Health

Pharmaceuticals Registration

Import & Export Control Section

18th Floor, Wu Chung House

213 Queen's Road East, Wanchai, Hong Kong

Tel: 852-2961-8754

Fax: 852-2834-5117

Web site: <http://www.dh.gov.hk>

Department to issue license for imported dutiable commodities

Hong Kong Customs & Excise Department
Office of Dutiable Commodities Administration
6-9th floors, Harbor Building
38 Pier Road, Central, Hong Kong
Tel: 852-2815-7711
Fax: 852-2581-0218
Web site: <http://www.customs.gov.hk>

Department for Trade Mark Registration

Intellectual Property Department
Trade Marks Registry
24th and 25th Floors, Wu Chung House
213 Queen's Road East
Wan Chai, Hong Kong
Tel: 852-2803-5860
Fax: 852-2838-6082
Web site: <http://www.ipd.gov.hk>

Semi-government Organization Providing Travel Information

Hong Kong Tourist Board
9th - 11th floors, Citicorp Center,
18 Whitfield Road, North Point, Hong Kong
Tel: (852) 2807-6543
Fax: (852) 2806-0303
Home Page: www.hktourismboard.com

Semi-government Organization Providing Hong Kong Trade Information

Hong Kong Trade Development Council
38th Floor, Office Tower, Convention Plaza
1 Harbor Road, Wan Chai, Hong Kong
Tel: (852) 2584-4188
Fax: (852) 2824-0249
Home Page: <http://www.tdctrade.com>